



CITY OF TEMECULA

INSURANCE: SURETY BONDS

There are circumstances where the City requires a contractor to provide a surety bond for a project (i.e. labor & materials bond, payment bond, maintenance bond, etc.). Basically, a surety bond is the surety's promise to pay the City (*obligee*) a certain amount if the Contractor (*principal*) fails to meet some obligation, such as fulfilling the terms of a contract.

Review Process:

The City reviews the surety bond to ensure the bond company has an acceptable Financial Strength Rating and is an admitted carrier in California.

- [Financial Strength Rating \(FSR\)](#): A FSR is an independent opinion (offered by *AM Best*) of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. Although the City requires a surety to have a FSR of at least A- VII for agreements, a bond surety simply needs sufficient funds to cover the project.
- [California Admitted Carrier](#): The Surety must be an admitted carrier in California. California admitted carriers participate in the California Insurance Guarantee Association or CIGA, while non-admitted carriers do not. CIGA provides a way for claims to be paid in the case of insolvency of an admitted insurance carrier.

In addition, the City reviews the Bond Document to verify that it has the appropriate back-up documentation, as follows:

- [Bond Document](#): The bond document recognizes the agreement between the Principal (contractor) and the Surety (insurance company) to provide a specified amount of money.
 - *Surety Signature*:
 - The bond document must be signed by the surety's appointed attorney-in-fact.
 - A "Powers of Attorney Certified Copy" must be provided. This name of the attorney-in-fact must appear on the document. This document authorizes the attorney-in-fact to execute the bond on behalf of the surety.
 - A notarized document acknowledging the attorney-in-fact is acting in an authorized capacity to sign the bond document must be provided.
 - *Principal Signature*:
 - Two Signatures of corporate officers required unless corporate documents authorize only one person to sign the agreement on behalf of the corporation.
 - A notarized document acknowledging the corporate officers are acting in an authorized capacity to sign the bond document must be provided.